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CC:CORP:B02

PLR-137378-13

Date:

March 10, 2014

LEGEND

Parent =

New HoldCo =

Sub HoldCo 1 =

Sub HoldCo 2 =

Sub HoldCo 3 =

Sub 1 =

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Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

Sub 6 =

Sub 7 =

Sub 8 =

Sub 9 =

Sub 10 =

Sub 11 =

Sub 12 =

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Sub 13 =

Sub 14 =

Sub 15 =

Sub 16 =

Sub 17 =

Sub 18 =

Sub 19 =

Sub 20 =

Sub 21 =

Sub 22 =

Sub 23 =

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Sub 24 =

Sub 25 =

Foreign Sub 1 =

Foreign Sub 2 =

Partnership 1 =

Partnership 2 =

Partnership 3 =

Partnership 4 =

DE =

Business =

Segment A =

PLR-137378-13

State X =

Division Law =

State Regulator =

Restructuring Plan =

a =

b =

c =

d =

e =

f =

g =

h =

i =

i =

Dear :

This letter responds to your request, submitted by your authorized representatives on behalf of Parent and its affiliates, for rulings on the federal income tax consequences of certain parts of a series of transactions (collectively, the “Proposed Transaction”). The information submitted in that request and subsequent correspondence is summarized below.

The rulings contained in this letter are based upon facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Facts

Parent is the common parent of an affiliated group of corporations (the “Parent Group”) that join in the filing of a consolidated federal income tax return. The Parent Group is engaged generally in Business under the regulation of State Regulator.

Parent is a non-profit, non-stock, non-member corporation that is taxed under section 833(a)(1) of the Internal Revenue Code (the Code). Parent is licensed by State X to directly conduct Segment A. Parent is governed by a board of directors with authority to perform the functions typically performed by a board of directors of a for-profit, stock corporation. Under its current bylaws, a portion of the members of Parent’s board of directors is effectively self-perpetuating (that is, these members elect their successors), and the remaining members are appointed by certain officials of State X and surrounding local governments.

Parent owns a% of the stock of Sub1, a member of the Parent Group, b% of the stock of Sub 2, and c% of the membership interests in each of Sub 3 and Sub 4, both non-profit corporations. Parent also owns d% of the interests in Partnership 1, a limited liability company treated as a partnership for federal income tax purposes.

Sub 1 owns e% of the interests in Partnership 2, a limited liability company treated as a partnership for federal income tax purposes. Sub 1 also owns a% of the stock of Sub 5, Sub 6, Sub 7, Sub 8, Sub 9, Sub 10, Sub 11, Sub 12, Sub 13, Sub 14, Sub 15, Sub 16, Sub 17, each a member of the Parent Group, and Foreign Sub 1.

Sub 6 and Sub 16 own f% and g%, respectively, of the stock of Foreign Sub 2.

Sub 7 owns a% of the stock of Sub 18, which owns a% of the stock of each of Sub 19, Sub 20, and Sub 21. Sub 21 owns a% of the stock of Sub 22 and h% of the interests in Partnership 1. Each of Sub 18, Sub 19, Sub 20, Sub 21, and Sub 22 is a member of the Parent Group.

Sub 9 owns a% of the stock of Sub 23, Sub 10 owns a% of the stock of Sub 24, and Sub 11 owns a% of the stock of Sub 25. Each of Sub 23, Sub 24, and Sub 25 is a member of the Parent Group.

Sub 16 owns all of the interests in DE, an entity disregarded from Sub 16 for federal income tax purposes, the remaining h% of the interests in Partnership 1, and i% of the interests in Partnership 3, a limited liability company treated as a partnership for federal income tax purposes. Partnership 1 owns j% of the interests in Partnership 4, a limited liability company treated as a partnership for federal income tax purposes. (The remaining interests in Partnership 3 and Partnership 4 are owned by unrelated parties.)

In anticipation of the Proposed Transaction, Sub 1 has formed SubHoldCo 1, SubHoldCo 2, and SubHoldCo 3, each a limited liability company that is disregarded from Sub 1 for federal income tax purposes.

Proposed Transaction

At the recommendation of State Regulator, the Parent Group has decided to simplify its corporate structure and reorganize its Business activities along product and geographic lines. Consistent with these objectives, under the Restructuring Plan submitted for approval by State Regulator (which approval is a condition precedent to the Restructuring Plan's implementation), the Parent Group will implement the following proposed transactions (collectively, the "Proposed Transaction").

- (i) The following will occur by operation of State X Division Law and will be effective when the Articles of Division are filed, or at a later time as specified in the Articles of Division (the "Effective Date").
 - (a) New HoldCo will be organized as a State X non-profit, non-stock, non-member, corporation and will serve as the holding company for Parent, other members of the Parent Group, and related entities that are engaged, directly or indirectly, in Business. New HoldCo will be governed by a board of directors with authority to perform the functions typically performed by a board of directors of a for-profit, stock corporation. The initial members of New HoldCo's board of directors will be the same members of Parent's board of directors immediately prior to implementation of the Proposed Transaction. New HoldCo will be subject to federal income tax under section 501(m) as a holding company of entities directly and indirectly engaging in Business.
 - (b) Parent will amend and restate its articles of incorporation to provide for a single voting membership interest, the sole equity instrument authorized by Parent, and to change its name. The membership interest will provide its holder the right to elect at least 80% of the members of Parent's board of directors. The holder also will have the sole right to receive distributions from Parent upon liquidation, except as otherwise prohibited by State X law.
 - (c) Parent will issue its membership interest to New HoldCo.
 - (d) The assets and liabilities of Parent will be allocated between Parent and New HoldCo as the survivors of the transaction. In particular, the stock of Sub 1 and Sub 2 and the interests in Partnership 1, along with certain non-equity assets and liabilities of Parent will be allocated to New HoldCo.

For regulatory and nontax legal reasons, this portion of the Proposed Transaction will be accomplished under the Division Law, rather than a series of transactions that carry a specific form under State X corporate law. For federal income tax purposes (and comparable state and local income tax purposes), the Parent Group intends that implementation of this portion of the Proposed Transaction under the Division Law will be deemed to consist of the following sequential transactions:

- (aa) New HoldCo will be created.
- (bb) All of the proprietary interests in Parent will be transferred to New HoldCo in exchange for all of the proprietary interests in New HoldCo (the “Exchange”).
- (cc) Parent will issue its sole membership interest to New HoldCo in exchange for all of the Parent proprietary interests held by New HoldCo (the “Recapitalization”).
- (dd) Parent will transfer a portion of its assets and liabilities to New HoldCo.
- (ii) New HoldCo will transfer the membership interest in Parent, the stock of Sub 2, the interests in Partnership 1, and certain non-equity assets to Sub 1, and Sub 1 will assume certain liabilities of New HoldCo.
- (iii) Sub 7 will distribute the stock of Sub 18 to Sub 1.
- (iv) Sub 18 will distribute the stock of each of Sub 20 and Sub 21 to Sub 1.
- (v) Sub 16 and Sub 21 will distribute their respective interests in Partnership 1 to Sub 1. Partnership 1 will terminate upon the transfer, as all of its interests will be held by Sub 1.
- (vi) Sub 1 will contribute the stock of Sub 20 to Partnership 1, now an entity disregarded as separate from Sub 1 for federal income tax purposes.
- (vii) Each of Sub 7, Sub 12, and Sub 22 will merge with and into Sub 6.
- (viii) Sub 1 will transfer the membership interest in Parent, the interests in Partnership 2, the stock of Sub 2, Sub 6, Sub 8, Sub 9, Sub 10, Sub 13, Sub 14, Sub 15, Sub 16, Sub 18, Sub 21, and Foreign Sub 1, and certain non-equity assets to SubHoldCo 1, and SubHoldCo 1 will assume certain liabilities of Sub 1. The transfers and assumption will be disregarded for federal income tax purposes.

- (ix) Sub 1 will transfer the stock of Sub 5 and Sub 11 to SubHoldCo 2, which will be disregarded for federal income tax purposes.
- (x) Sub 1 will transfer the stock of Sub 17 to SubHoldCo 3, which will be disregarded for federal income tax purposes.
- (xi) Sub 16, Sub 18, and Sub 21 will distribute cash and investment-grade bonds to SubHoldCo 1, an entity disregarded as separate from Sub 1 for federal income tax purposes, for purposes of operating and capital needs.

Representations

The Exchange

The following representations are made with respect to the Exchange, as described in step (i)(bb) above:

- (1a) No stock, securities, or other proprietary interests will be issued, or deemed issued, for services rendered to or for the benefit of New HoldCo in connection with the Exchange, and no stock, securities, or other proprietary interests will be issued, or deemed issued, for indebtedness of New HoldCo in connection with the Exchange.
- (1b) None of the proprietary interests in Parent deemed to be transferred to New HoldCo in the Exchange will be “section 306 stock” within the meaning of section 306(c).
- (1c) The Exchange is not the result of the solicitation by a promoter, broker, or investment house.
- (1d) New HoldCo will receive all rights with respect to the proprietary interests in Parent deemed to be transferred in the Exchange.
- (1e) The proprietary interests in Parent deemed to be transferred to New HoldCo in the Exchange will not be subject to any liabilities and no liabilities of the deemed holders of the proprietary interests in Parent (the “Holders”) will be assumed by New HoldCo in the Exchange or will be discharged or extinguished in connection with the Exchange.
- (1f) At the time of the Exchange, there will be no indebtedness between New HoldCo and the Holders, and there will be no indebtedness created in favor of the Holders in connection with the Exchange.

- (1g) The fair market value of the assets of New HoldCo will exceed the amount of its liabilities immediately after the Exchange.
- (1h) The Exchange will occur under a plan formulated, finalized, and approved before the transaction takes place.
- (1i) The Exchange will occur on the Effective Date.
- (1j) There is no plan or intention on the part of New HoldCo to redeem or otherwise reacquire any of its proprietary interests deemed to be issued in the Exchange.
- (1k) At the time of the Exchange, New HoldCo will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire proprietary interests in New HoldCo that, if exercised or converted, would affect the Holders' deemed acquisition or retention of "control" of New HoldCo, within the meaning of section 368(c). New HoldCo has no plan or intention to issue any proprietary interests or any type of right pursuant to which any person could acquire proprietary interests in New HoldCo that would result in the Holders losing deemed "control" of New HoldCo within the meaning of section 368(c).
- (1l) The fair market value of the New HoldCo proprietary interests deemed to be issued in the Exchange will be approximately equal to the fair market value of the Parent proprietary interests deemed to be transferred in exchange therefor.
- (1m) Following the Exchange, (i) New HoldCo will remain in existence, (ii) the proprietary interests or membership interest in Parent will remain, or be deemed to remain, within the New HoldCo affiliated group, (iii) Parent will continue to directly conduct Segment A, the historic business it conducted prior to the Exchange, and (iv) New HoldCo, and its direct and indirect subsidiaries, will continue to conduct Business, the business operations that Parent, and its direct and indirect subsidiaries, conducted prior to the Exchange.
- (1n) Except for Parent's issuance of its membership interest to New HoldCo in deemed exchange for Parent proprietary interests deemed held by New HoldCo (as described in step (i)(cc) above), and New HoldCo's transfer of Parent's membership interest to Sub 1 (as described in step (ii) above), neither New HoldCo nor any member of its affiliated group has any plan or intention to dispose of the deemed Parent proprietary interests or the Parent membership interest, other than in the normal course of business operations.

- (1o) Parent will pay its allocable portion of the expenses incurred by the Parent Group in connection with the Proposed Transaction.
- (1p) At the time of the Exchange, New HoldCo will not be an investment company within the meaning of section 351(e)(1) and Treas. Reg. § 1.351-1(c)(1)(ii).
- (1q) At the time of the Exchange, New HoldCo will not be a personal service corporation within the meaning of section 269A.
- (1r) All material steps that comprise the Proposed Transaction, including the Exchange, will be undertaken pursuant to a prearranged overall plan of restructuring formulated, finalized and approved before the Proposed Transaction takes place, and will be reported consistently by the respective parties for federal income tax purposes.

The Recapitalization

The following representations are made with respect to the Recapitalization, as described in step (i)(cc) above:

- (2a) The membership interest in Parent issued to New HoldCo in the Recapitalization will be exchanged solely for the proprietary interests in Parent deemed surrendered by New HoldCo in the Recapitalization.
- (2b) The fair market value of the Parent membership interest received by New HoldCo in the Recapitalization will be approximately equal to the fair market value of the Parent proprietary interests deemed surrendered in exchange therefor. No property other than Parent's voting membership interest will be issued or distributed to New HoldCo in the Recapitalization.
- (2c) The Recapitalization is not part of a plan to periodically increase the proportionate interest of any person in the assets or earnings and profits of Parent.
- (2d) Parent has no plan or intention to redeem or otherwise reacquire the membership interest issued in the Recapitalization.
- (2e) At the time of the Recapitalization, Parent will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire membership interests in Parent.
- (2f) Parent will pay its allocable portion of the expenses incurred by the Parent Group in connection with the Proposed Transaction.

- (2g) The Recapitalization will occur on the Effective Date.
- (2h) At the time of the Recapitalization, Parent will not be under the jurisdiction of a court in a Title 11 or similar case within the meaning of section 368(a)(3)(A).
- (2i) None of the proprietary interests in Parent deemed to be transferred in the Recapitalization will be “section 306 stock” within the meaning of section 306(c).
- (2j) For purposes of State X law, Parent will be the same legal entity both before and after the Recapitalization.
- (2k) All material steps that comprise the Proposed Transaction, including the Recapitalization, will be undertaken pursuant to a prearranged overall plan of restructuring formulated, finalized and approved before the Proposed Transaction takes place, and will be reported consistently by the respective parties for federal income tax purposes.

General Representations

The following representations are made with respect to the implementation of the Restructuring Plan and the continuation of the group:

- (3a) The Proposed Transaction will occur under the Restructuring Plan formulated, finalized and approved before the Proposed Transaction takes place.
- (3b) Following the Proposed Transaction, New HoldCo, and its direct and indirect subsidiaries, will continue to own substantially all of the assets and liabilities that were held by Parent, and its direct and indirect subsidiaries, prior to the Proposed Transaction.
- (3c) Following the Proposed Transaction, Parent will continue to directly conduct Segment A, the historic business it conducted prior to the Proposed Transaction, and New HoldCo and its direct and indirect subsidiaries will continue to conduct Business, the business operations that Parent and its direct and indirect subsidiaries conducted prior to the Proposed Transaction.
- (3d) To the best knowledge and belief of Parent, and assuming a favorable letter ruling is issued, none of New HoldCo, Parent, any member of the Parent Group, or any related entity will take into account taxable gain or loss currently as a result of the transactions undertaken following the Exchange and the Recapitalization (as described in step (i)(d) and steps (ii) through (xi), above).

- (3e) To the best knowledge and belief of Parent, the Proposed Transaction will not result in a decrease in the amount payable by New HoldCo, Parent, and their affiliates pursuant to Section 9010(a) of the Patient Protection and Affordable Care Act beginning in 2014 when compared to the amount payable by such entities without implementing the Proposed Transaction.
- (3f) New HoldCo and Parent expect to remain non-profit entities and have no plan or intent to legally change to for-profit status.
- (3g) All parties to the Proposed Transaction intend to treat the Proposed Transaction, for federal income tax purposes, in a manner consistent with the Restructuring Plan submitted for approval by State Regulator and with the factual description and representations included herein. All parties to the Proposed Transaction will report the Proposed Transaction, and each step thereto, in a manner consistent with the rulings issued herein for federal income tax purposes.

Rulings

Based solely on the information and representations submitted, we rule as follows:

- (1) For federal income tax purposes, implementation of steps (i)(a), (i)(b), and (i)(c) of the Proposed Transaction will be treated as: (i) a deemed transfer of all of the proprietary interests in Parent to New HoldCo in deemed exchange for all of the proprietary interests in New HoldCo (the "Exchange"); and (ii) Parent's issuance of its sole membership interest to New HoldCo in deemed exchange for all of the proprietary interests in Parent held by New HoldCo (the "Recapitalization").

The Exchange

Based solely on the information and representations submitted, we rule as follows on the Exchange:

- (2) The Exchange will constitute an exchange subject to section 351 of the Code.
- (3) New HoldCo will recognize no gain or loss on the receipt of the proprietary interests in Parent in exchange for the proprietary interests in New HoldCo (section 1032(a)).
- (4) The Parent Group will be treated as remaining in existence immediately following the Exchange, with New HoldCo as the new common parent of the continuing group. See Rev. Rul. 82-152, 1982-2 C.B. 205.

- (5) The Exchange will qualify as a “group structure change” under § 1.1502-33(f). New HoldCo’s basis in the Parent proprietary interests immediately after the group structure change will be Parent’s net asset basis as determined under § 1.1502-31(c), subject to the adjustments described in § 1.1502-31(d) (§ 1.1502-31(b)(2)).
- (6) Immediately after New HoldCo becomes the new common parent of the Parent Group, the earnings and profits of New HoldCo will be adjusted to reflect the earnings and profits of Parent immediately before Parent ceases to be the common parent of the Parent Group (§ 1.1502-33(f)(1)).

The Recapitalization

Based solely on the information and representations submitted, and provided that (i) the issuance of the Parent membership interest to New HoldCo is solely in exchange for the proprietary interests in Parent held by New HoldCo, and (ii) any other transfers of stock, money, or property between Parent and New HoldCo, or any person related to Parent or New HoldCo is respected as a separate transaction, we rule as follows on the Recapitalization:

- (7) The Recapitalization will constitute a reorganization within the meaning of section 368(a)(1)(E). Parent will be “a party to the reorganization” within the meaning of section 368(b).
- (8) Parent will recognize no gain or loss on the issuance of the Parent membership interest in exchange for the Parent proprietary interests (section 1032(a)).
- (9) New HoldCo will recognize no gain or loss on the exchange of the Parent proprietary interests for the Parent membership interest (section 354(a)(1)).
- (10) New HoldCo’s basis in the Parent membership interest will equal the basis of the Parent proprietary interests surrendered in exchange therefor (section 358(a)(1)).

Caveats

No opinion is expressed about the tax treatment of the Proposed Transaction under other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings. In particular, this office has not reviewed any information pertaining to and has made no determination regarding the federal income tax treatment of steps (i)(d), (i)(dd), and (ii) through (xi) of the Proposed Transaction.

Procedural Statements

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Joanne M. Fay
Branch Chief, Branch 2
Office of the Associate Chief Counsel
(Corporate)

cc: